Will India Save Canada's Energy Patch?

## Description

Growing demand for crude along with recent supply constraints have helped to buoy the price of oil as it remains over US$50 per barrel. This has been somewhat surprising given that industry fundamentals, such as oil inventories and rising production from OPEC, indicate that supply continues to exceed demand.



However, what many investors don't realize is that the growth figures for India have been staggering to say the least, and this has been a key driver of growing demand for crude, which is helping to rebalance global oil markets.

In fact, there are signs that strong demand for energy from India may be what is needed to reduce the global supply glut and push oil prices higher.

**Now what?**

After a number of false starts and overly exaggerated claims about its economic potential, India's economy appears to be starting to fire on all cylinders, and this is an important development for crude. India's economy is growing at a staggering rate with the International Monetary Fund (IMF) reporting that GDP expanded by an impressive 7.3% in 2015.

Meanwhile, there are signs that such spectacular growth will continue; the IMF is expecting India's GDP to grow by 7.5% for 2016 and the same again in 2017.

Such rapid economic expansion has caused India's demand for crude to surge. The demand for oil in 2016 is expected to top 350 million barrels daily. If this eventuates it would be the strongest annual growth rate on record for India and a clear sign of the growth in demand to come.

This surging demand can be attributed to India's thirst for energy, particularly petroleum products; the consumption of gasoline and diesel for the 12 months ended March 31, 2016, surged by 14.5% and 7.5%, respectively.

All of this is of particular importance to the energy patch, which has been caught in a protracted slump since oil prices came crashing to earth in late 2014, eventually slipping below US$30 per barrel in February of this year. This forced oil explorers and producers to slash investments in the energy patch as they battled to shore up their balance sheets, and, in the case of heavily indebted companies such as **Penn West Petroleum Ltd.** and **Lightstream Resources Ltd.**, pushed them to the brink of failure.

**So what?**

Without a doubt, investors have an opportunity to take advantage of depressed valuations in the energy patch and start adding oil stocks to their portfolios.

Nonetheless, investors should remain focused on those companies with growing production, solid balance sheets, and low operating costs. One energy company that stands out for these reasons and more is **Vermilion Energy Inc.** (TSX:VET)(NYSE:VET).

Not only does Vermilion operate a globally diversified portfolio of oil assets, but it continues to invest in growing its oil production despite sharply weak oil prices. For the first quarter 2016, oil output grew by an impressive 30% year over year. Then there are its low cash costs which, at US$12.71 per barrel, mean that its operations will keep generating solid growing margins as the price of oil rises.

Unlike many of its peers, it has managed to sustain its dividend payments. Investors are rewarded with a juicy 5% yield that will only become more sustainable as oil prices rise.



**CATEGORY**

1. Energy Stocks
2. Investing

**TICKERS GLOBAL**

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2. TSX:VET (Vermilion Energy Inc.)

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